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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of

Amendment of Part 36 and Part 69
of the Commission's Rules to Effect
Comprehensive Reform of the Access
Charge System

RM-8480

SOUTHWESTERN BELL TELEPHONE COMPANY'S
COMMENTS REGARDING AD HOC'S
PETITION FOR RULEMAKING

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SUMMARY*

The key to a more fully competitive telecommunications industry is equal treatment of all competitors, including sorely needed increased pricing flexibility for Local Exchange Carriers. The Commission in its Price Cap Order specifically stated that it is more desirable to permit LECs to migrate their rates toward a set of prices that enhance efficiency. The Commission further concluded that permitting flexibility in price-setting generates economic efficiencies that benefit ratepayers through lower rates. Therefore, Ad Hoc's request to deny LECs pricing flexibility and delay access reform is misguided at best. Such action would merely delay the benefits of competition to consumers.

Although changes to separations may be required, these reforms are in no way required nor warranted as a precursor to access reform that is responsive to the increasingly competitive access market. There is no reason to closely tie separations reform with access pricing reform, as Ad Hoc suggests in its Petition. Therefore, the Commission should proceed with access charge reform as soon as practical.

SWBT agrees that subsidies should be addressed, but not with Part 36 review as a required precursor to access reform. SWBT supports access reform that would allow rate rebalancing, promote competition and minimize subsidy flows.

SWBT supports a process whereby all telecommunications providers contribute financial support toward the funding of

* Abbreviations in the Summary are referenced within the text.

Universal Service. However, service providers who provide universally available telephone service and are obligated to fulfill a carrier-of-last-resort responsibility should not also be required to provide financial support.

Also, entry of multiple providers in a "high-cost" area based on the provision of support funds is inappropriate. The premise for support was that customers in "high-cost" areas should not be required to pay rates that would be needed to recover fully the service provider's costs. To address this problem, a social contract which included long depreciation lives and forms of supplier and end user support was established with the condition that the service provider would fully recover its costs. Therefore, allowing selective entry into these areas abrogates the social contract before regulatory obligations are fulfilled. Additionally, establishment of a quasi-market system that places more overall cost burdens on society than the former system is a step in the wrong direction.

Regulation should not pick winners and losers by providing artificial advantages to some market participants. Access reform that eliminates regulatory handicapping is essential if consumers, as opposed to only certain advantaged service providers, are to reap the benefits of competition.

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I. INTRODUCTION

Southwestern Bell Telephone Company (SWBT), by its attorneys, respectfully files these Comments regarding the April 15, 1994 Petition for Rulemaking (Petition) filed by the Ad Hoc Telecommunications Users Committee (Ad Hoc or Committee).

Ad Hoc's Petition argues essentially that full separations reform must precede the sorely needed access system reform in the United States Telecommunications market. However, as demonstrated herein, this is an entirely unfounded argument. SWBT agrees that support mechanisms must be reevaluated; however, the competitive characteristics of the current access market justify reforms that will provide the framework for true competition.

The key to a more fully competitive telecommunications industry is equal treatment of all competitors, including sorely needed increased pricing flexibility for Local Exchange Carriers (LECs).

II. COMPREHENSIVE ACCESS CHARGE SYSTEM REFORM IS NEEDED TO ENSURE A BALANCED AND ORDERLY PROCESS FOR TRANSITION TO EFFECTIVE COMPETITION.

There is no reason to closely tie separations reform with access pricing reform, as Ad Hoc suggests in its Petition. The Bell Operating Companies (BOCs), GTE, and other large LECs are regulated under Price Cap rules which cover a major portion of interstate access services and revenues. Under Price Caps, separated costs are used only for determining the level of costs for End User Common Line (EUCL) and determining costs to identify earnings for sharing calculations. The Commission in its Price Cap Order¹ specifically stated: "We find there are also economic benefits to be obtained from moving away from a system in which regulators dictate prices on the basis of fully distributed costing principles, toward a system of limited pricing flexibility. It is more desirable to permit LECs to migrate their rates toward a set of prices that enhances efficiency." The Commission further concluded that "permitting flexibility in price-setting generates economic efficiencies that benefit ratepayers through lower rates."² Therefore, Ad Hoc's request to deny LECs pricing flexibility and delay access reform is misguided at best. Delaying the availability of pricing flexibility necessary to allow fair competition until separations reform can be addressed would further compound the current injustice.

¹ In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order, released Oct. 4, 1992, p. 18, para. 35.

² Id.

The Ad Hoc Committee believes it is essential that comprehensive reform of the Access Charge System proceed as soon as possible. The Committee also continues to believe that effective access charge reform is not feasible without fundamental jurisdictional separations reform (and continues to propose that the Commission's initial focus be on separations reform). (Id., p. 4) However, as pointed out above, it is unnecessary in a Price Cap environment and an injustice to LECs in their competitive markets to tie pricing reforms to separations reform. Such action would merely delay the benefits of competition to consumers and ensure that LECs would lose market share. Such a result clearly is not in the public interest.

Access charge reform is warranted at this time to correspond to the competitive market conditions that currently prevail. In USTA's Petition for Rulemaking on Access Reform, a structural framework is proposed that addresses appropriately the competitive market aspects of access services as well as public policy issues.

This structural framework provides for regulatory changes as competition emerges. It provides a reformation of the access plan which is not dependent on the relative price levels of access services. The proposed plan can be implemented regardless of access pricing levels. This approach allows access reform to proceed without waiting for a lengthy separations review process that requires joint board involvement. If a separations review later determines that access pricing levels are inappropriate

because of faulty separations, the relative pricing levels can be altered at that point.

However, as indicated earlier, Price Cap companies' access service prices are not to be dictated based upon fully distributed costing principles as was formerly the case under Rate-of-Return regulation. Therefore, a requirement that jurisdictional separations reform be a precursor to access reform is unfounded on this basis. Moreover, access reform that establishes a structural framework which is aligned with the evolving competitive access services market is urgently needed today. Ad Hoc's rationale for delaying such action is unfounded for the reasons presented in Sections IV & V below.

Although changes to separations may be required, these reforms are in no way required nor warranted as a precursor to access reform that is responsive to the increasingly competitive access market. As noted in SWBT's Comments in the LEC Price Cap Review (CC Docket No. 94-1, pp. 44-46), there is no good way to make the needed transition to competitive services from Price Cap regulation as long as the sharing mechanism is maintained. Elimination of sharing would remove a great deal of complexity from the LEC Price Cap plan and would further minimize the need for separated cost allocations. The competitive characteristics of the access market, as noted in the USTA Petition for Rulemaking on Access Reform (filed Sept. 17, 1993) and in SWBT's Comments in the LEC Price Cap Review, (filed May 9, 1994), warrant access reform

that provides an appropriate structure within which competition can operate effectively.³

III. SWBT SUPPORTS ACCESS REFORM THAT WOULD ALLOW RATE REBALANCING, PROMOTE COMPETITION AND MINIMIZE SUBSIDY FLOWS.

Ad Hoc asserts that efforts to implement broad access charge reform without first addressing the direct, or explicit, subsidies flowing under current universal service funding mechanisms, as well as the indirect or implicit subsidies flowing under the Part 36 jurisdictional separations procedures, would be inherently futile and potentially counterproductive to achievement of cost-based pricing and pro-competitive goals sought to be realized by the Commission. (Id., p. 5)

SWBT agrees that subsidies should be addressed, but not with Part 36 review as a required precursor to access reform. SWBT supports access reform that would allow rate rebalancing, promote competition and minimize subsidy flows. To the extent that regulations prohibit SWBT from engaging in such practices, explicit support mechanisms should be developed to foster universal service. These support mechanisms should be targeted to providers of universal service and should be funded in a competitively neutral

³ Ad Hoc proposes that separations and access reform proceed on parallel tracks under a coordinated program that allows for incremental rule changes as the exchange access and local exchange markets evolve. (Id., p. 5) As stated above, SWBT agrees that subsidies must be addressed in the context of access reform, but the benefits of competition to consumers must not be delayed by holding up completion of access reform while potentially lengthy separations reform efforts proceed (i.e., parallel tracks would soon not be parallel at all -- access reform efforts would be stifled unnecessarily if tied to separations reform).

manner. Additionally, SWBT supports the targeting of direct assistance to end users who could not otherwise afford basic telephone service.

Ad Hoc proposes that a universal service policy for an increasingly competitive environment should serve the following goals: (a) create a mechanism for determining and for limiting where subsidies should be applied; (b) establish how much subsidy is appropriate for each situation; (c) determine how the subsidy will be funded; and (d) establish a mechanism for impartially administering the collection and distribution of such subsidies. (Id., p. 7) SWBT generally agrees with this approach; however, as stated previously, subsidies should be minimized by first allowing LECs rate rebalancing.

Ad Hoc's proposal regarding competitive bidding (Petition, p. 8; ETI, p. 19) for high cost exchanges requires close evaluation to determine if the public interest would be served by such a plan. SWBT supports fair competition; however, allowing competitors to selectively choose certain high cost areas would not likely serve the public interest. Construction of duplicate telecommunications networks in high cost areas which are dependent upon receipt of support funds will increase overall telecommunications costs. Further, if existing LEC investment is displaced by competitors, LECs should be compensated for their stranded embedded investment that was placed under carrier-of-last-resort obligations.

Thus, the Commission should carefully consider a multitude of important issues, including: whether competitors are willing to serve high cost areas; the terms and conditions of obligations associated with universal service; assignment of carrier-of-last-resort-obligations; implementation of network interoperability; and compensation arrangements.

Also, entry of multiple providers in a "high-cost" area based on the provision of support funds is inappropriate. The premise for support was that customers in "high-cost" areas should not be required to pay rates that would be needed to recover fully the service provider's costs. To address this problem, a social contract which included long depreciation lives and forms of supplier and end user support was established with the condition that the service provider would fully recover its costs. Therefore, allowing selective entry into these areas abrogates the social contract before regulatory obligations are fulfilled. Additionally, establishment of a quasi-market system that places more overall cost burdens on society than the former system is a step in the wrong direction.

Ad Hoc advocates collection of USF funds through an assessment against loop facilities provided by all local service providers, including competitive access providers, rather than collecting from IXCs on the basis of presubscribed lines. Collecting Universal Service Funds (USF) through an assessment against carriers providing loop facilities would harm rather than promote universal service. LECs would have to adjust their rates

to fund the universal service assessment. It would be illogical for LECs to assess an additional "USF type surcharge" upon their end user customers as a means of support intended to recover costs of telephone loop facilities which these same customers receive at supported rate levels. A more appropriate approach would be to rebalance rates and develop a competitively neutral support mechanism that provides support directly to those low-income customers whose support needs are the greatest.

Finally, it must be noted that the USF mechanism was part of a carefully constructed plan to maintain universal service. This mechanism helped minimize the impact of reductions in interstate loop costs assignments (i.e., Subscriber Plant Factor reduction to 25%) for high cost LEC areas. It was designed, and must remain, a process whereby funding is provided by those providers who do not have carrier-of-last-resort responsibilities.

The Ad Hoc Committee advocates a "zero-based" approach for both the explicit subsidies found in the Commission's universal service funding mechanisms and for the implicit subsidies inherent in the existing separations procedures. It suggests that a "means" test should be developed to size and target any subsidy. According to Ad Hoc, having thus determined and limited subsidies directly serving explicit public interest goals, the Commission then should adopt a mechanism that requires all providers of local service to contribute equitably. (Id., pp. 8-9)

The Ad Hoc Petition is inconsistent with the ETI Report with regard to the funding of explicit funding mechanisms. The

Petition would require "all providers of local service to contribute equitably" to the funding of subsidies. (p. 9) The ETI report, on the other hand, suggests that "contribution ... should be collected through a broad, uniformly-applied charge on all relevant industry participants." (ETI Report, p. 20) SWBT supports a process whereby all telecommunications providers contribute financial support toward the funding of Universal Service. Service providers who provide universally available telephone service and are obligated to fulfill a carrier-of-last-resort responsibility should not also be required to provide financial support.

IV. SEPARATIONS REFORM

Ad Hoc claims that the extent to which Part 69 access charge rules can be reformed is directly affected by how the separations system allocates the revenue requirement. (Ad Hoc, p. 9) As stated above, it is not necessary to change separations prior to addressing access charge rules. Also, review of the separations process would require a lengthy Joint Board proceeding and would delay access reform and the benefits to be derived from full competition.

In Ad Hoc's discussion of its proposed Jurisdictional Transfer Mechanism (JTM) process (ETI, p. 24), it claims that disproportionate costs are currently being assigned to the interstate jurisdiction. No evidence is provided on how JTM would be a significant improvement over the status quo procedures.

The fact that the Commission created the interconnection charge (IC) does not imply that faulty separations procedures exist, as suggested by Ad Hoc. (p. 11) SWBT adequately justified and explained the IC as a recovery mechanism for legitimate costs.⁴ In fact, the only fault that the Commission has found thus far in its investigation of the IC was the previous allocation and recovery of GSF costs. This problem was remedied by the Commission in CC Docket No. 92-222 and subsequent LEC tariff filings.

Ad Hoc contends that a "zero base" approach to developing any subsidies that might be required to maintain universal service would "minimize economic distortions."⁵ SWBT agrees that LEC prices should move toward an economically efficient overall rate structure, and that implicit subsidies must be minimized via granting LECs pricing flexibility. However, where explicit support mechanisms are necessary, all service providers must participate equitably. Further, service providers that furnish universally available telephone service and are required to fulfill carrier-of-last-resort obligations should not also be required to fund the cost of universal service support.

V. "DE-LINKING" RATE MAKING FROM PART 36 CATEGORY-BY-CATEGORY COST ASSIGNMENTS.

Ad Hoc asserts that the Commission need not base interstate rate making decisions upon category-by-category results

⁴ See SWBT Comments and Reply Comments, CC Docket 91-213, Transport Rate Structure and Pricing, Comments and Reply Comments, filed Feb. 1, 1993 and March 19, 1994, respectively.

⁵ Id., Exhibit A, p. 20.

of Part 36 assignments of revenue requirement. (Id., p. 13) SWBT agrees.⁶

SWBT also agrees with Ad Hoc's statement in footnote 14 that the Commission should uncap the End User Common Line (EUCL) for the general body of residential and single line business customers, making a transition toward costs, and that it should lower the Common Carrier Line (CCL) charge as the EUCL increases. This change would promote more efficient access service prices as the CCL charge is currently a form of support only associated with LEC-provided access services and not LEC competitors' services. Additionally, some nontraffic-sensitive costs such as the line termination are directly attributable to end users' connections to the local switch. The line termination is being recovered from interstate access customers through local switching usage charges. This indirect form of support was identified as a separate element in the NYNEX Transition Plan to Preserve Universal Service in a Competitive Environment, Petition for Waiver, filed before the FCC in December, 1993. Current pricing is inefficient in that it disadvantages LEC switched access service by recovering nontraffic-sensitive costs on a usage basis and by recovering these costs from IXC's when they are in fact incurred by end users.

⁶ See n. 3, supra.

VI. AD HOC'S POSITION OPPOSING IMMEDIATE, EXTENSIVE ADDITIONAL LEC PRICING FLEXIBILITY IS INTENDED TO BENEFIT ONLY A SELECT FEW COMPETITORS AND NOT THE PUBLIC INTEREST.

Ad Hoc claims that it "would support more substantial levels of LEC pricing flexibility when effective competition in the provision of exchange access and local exchange services becomes reality." (p. 14) Of particular concern to Ad Hoc is its view that "premature LEC pricing flexibility could destroy emerging competition or ... prevent the local exchange and access markets from witnessing otherwise achievable levels of competition." (Id.) This position confuses efficient competitive entry with merely encouraging a proliferation of suppliers. Extending regulatory protection to potential entrants will likely achieve the objective of significantly increasing the number of access market suppliers. However, such protection will tend to encourage inefficient entry, which will fail to yield the full benefits consumers typically expect from truly competitive markets.

For effective competition to occur, LECs must be able to adjust prices to better reflect cost causation. Holding LECs back will preclude the benefits of true competition from reaching consumers. Restraining the LECs to advantage competitive service providers is a form of "regulatory handicapping" that is not within the lawful bounds of the Commission's authority to provide "regulatory oversight."

"Regulatory oversight" involves monitoring and influence over rates, terms and conditions for services provided under the authority of the regulators. Typical elements of regulatory

oversight are the tariff review process, cost support requirements, rate justification and other regulatory requirements. SWBT agrees that regulatory oversight is appropriate in areas where alternative sources of supply are unavailable -- particularly if public policy support issues are present. But as market area competition increases, the degree of regulatory oversight should diminish.⁷

"Regulatory handicapping," in contrast, is a process whereby regulators implement asymmetrical rules and policies that impart an unwarranted marketplace advantage to certain market participants. The application of this disparate regulation hastens market share movement to these providers and facilitates a "safety net" that shields them from competitive forces. Consumers receive no direct benefit from these policies. Examples of regulatory handicapping embodied in the Commission's current policies are:

LEC Competitors	LECs
Unfettered ICB Pricing	ICB Pricing Prohibited
Rate Range Pricing	Rate Range Pricing Prohibited
Promotional Pricing	Promotional Pricing Prohibited
Tariff Filings Cannot Be Rejected	Lengthy Tariff Review
Unlimited Rate Deaveraging	Rates Averaged Over Broad Geographic Areas
Selective Market Entry	Must Serve All Customers
No Cost Support for New Services	Extensive Cost Support for New Services

⁷ This is precisely the philosophy of the USTA Access Reform Proposal which SWBT supports.

Although SWBT believes that regulatory oversight may be appropriate in many markets, regulatory handicapping is clearly improper and should be discontinued. Accordingly, all telecommunications providers in a given market should be subject to equivalent regulatory scrutiny. To continue to do otherwise denies LECs "equal protection" under the law.⁸

There is no support in the law for the current policies that allow LEC competitors pricing flexibility while denying the same to the LECs. The Communications Act makes no distinction between carriers or classes of carriers (e.g., the Commission's dominant/non-dominant distinction) and the Act provides no justification for disparate regulatory treatment between providers in like markets.⁹

Two important examples of regulatory handicapping imposed on LECs are rate ranges and contract pricing. As recently as March 5, 1994, a SWBT tariff mirroring a CAP tariff that would allow individual case basis (ICB) pricing in response to customer requests for proposals, was rejected by the Commission.¹⁰

⁸ Mathews v. DeCastro, 429 U.S. 181 (1976); U.S. Constitution Amendment V; Soon v. Crowley, 113 U.S. 703 (1885); Yick Wo v. Hopkins, 118 U.S. 356 (1886); For Administrative Application, see Garnett v. FCC, 513 F.2d 1056, 1060, (D.C. Cir. 1975). The briefs of Southwestern Bell Corporation in Southwestern Bell Corporation v. FCC, (D.C. Cir. Case No. 93-1562) also explain why it is illegal to continue to impose different levels of regulation on competitors in the same markets.

⁹ MCI v. AT&T, Nos. 93-356 and 93-521, (Slip Op. June 17, 1994).

¹⁰ Southwestern Bell Telephone Company Revisions to Tariff FCC No. 73, Transmittal No. 2297, Order, (DA 94-204) (Com. Car. Bur. (continued...))

Identical tariff language was accepted from a CAP just months earlier. This asymmetric regulation is demonstrably arbitrary and capricious. Commission regulatory policies for access services must be revised to eliminate pricing flexibility disparities among carriers. These disparities hurt market participants through no fault of their own and are not the basis of sound public policy. Likewise, customers are not well served by a policy which arbitrarily precludes pricing flexibility for certain classes of carriers.¹¹

Permitting LECs to exercise complete control over the prices of their services subject to competitive entry will not preclude entry by firms that are at least as efficient as the incumbent LECs. In addition, consumers will quickly realize the benefits associated with competitive market prices. However, maintaining restrictions on LEC price reductions, rather than encouraging truly competitive markets, will increase entry but will not likely produce the market prices that would result from unfettered competition. Postponing LEC pricing flexibility until entrants declare themselves firmly enough entrenched to withstand the free workings of a competitive market, as Ad Hoc proposes, serves only to delay the benefits of competition to consumers while

¹⁰(...continued)
rel. March 4, 1994). Application for Review pending, filed March 8, 1994.

¹¹ Such "protection periods" are unlawful in the United States. See Microtel, Inc. v. Florida PSC, 464 So. 2d 1189 (1985); FLA. STAT. § 364.345 (1); Hawaiian Tel. Co. v. FCC, 498 F.2d 771, 775-76 (D.C. Cir. 1974).

rewarding potentially inefficient firms with a protection period of profitable operation.

VII. GRANTING LECs IMMEDIATE PRICING FLEXIBILITY WILL RESULT IN THE MOST EFFICIENT TELECOMMUNICATIONS MARKET PLACE.

One of the primary principles of competitive markets is that the most efficient (i.e., lowest cost) suppliers can set the lowest prices and continue operating in the market. Less efficient (i.e., higher cost) suppliers will ultimately exit the market. Failure is an inherent part of competitive markets. In fact, failure of inefficient producers is necessary to guarantee consumers the full benefits of competition. Constraining the ability of selected firms to fully compete, however, dampens the ability of a competitive market to discipline suppliers. Such restrictive policies signal market participants that prices above competitive levels are acceptable and will be tolerated indefinitely (at least until certain entrants are willing to declare the market "competitive").

Efficient entrants will only be deterred by incumbent LEC price levels below the incremental costs of supplying access and other local exchange services. To the extent that any local exchange services are supplied at prices below incremental costs (perhaps reflecting universal service concerns, particularly in rural areas), entry might be discouraged, but as a result of social policy decisions and not because of deliberately anticompetitive LEC pricing decisions. If LECs attempted to preclude entry by setting prices below incremental costs, such prices and the

associated financial losses would have to be maintained indefinitely to effectively block efficient entry. However, if LECs are to continue supplying telecommunications services, prolonged financial losses would ultimately require price increases to levels above incremental costs, which would foster efficient entry. Thus, if permitted full pricing flexibility, LECs cannot stave off efficient competitive entry or "destroy emerging competition" (Ad Hoc, p. 14) by establishing anticompetitive rate structures. Attempting to maintain rate structures that would block competitive entry indefinitely would ensure financial ruin, so long as any potential entrant possessed a cost structure at least as efficient as that of an incumbent LEC. Therefore, continued maintenance of artificial restrictions on LEC price changes rather than full LEC pricing flexibility will prevent the local exchange and access markets from witnessing otherwise achievable levels of competition.

VIII. ECONOMIES OF SCOPE DO NOT CREATE ARTIFICIAL ENTRY BARRIERS FOR THE LECs' COMPETITORS.

Ad Hoc contends that the LECs' deployment of ubiquitous network facilities and obligation to provide service to all upon request yields economies of scope sufficiently large to "confer enormous strategic and competitive advantages on the LECs that are not available to or shared by non-dominant rivals." (ETI Report, p. 16) Economies of scope arise from the ability of producers to supply several services at a total cost lower than the combined costs of supplying multiple services independently. Consumers

benefit insofar as the prices of services are lower than they would be absent economies of scope. In effect, then, to insist that producers set prices significantly above incremental costs so that rivals not possessing economies of scope can profitably enter a market is to force consumers to forego the benefits of lower prices so that selected firms can prosper.

To the extent that LECs possess economies of scope, this aspect of LECs' cost structures cannot be considered a barrier to entry. Ad Hoc points out that both LEC special access services and Centrex benefit from economies of scope. (Id., p. 16, n.34) Yet, PBX vendors have not only survived, but thrived while successfully competing against LEC Centrex services. If LEC rates are currently close to incremental costs, the fact that CAPs continue to enter carrier access markets, and that PBX vendors continue to successfully compete against Centrex services, indicate that these suppliers are at least as cost efficient as LECs and that LEC economies of scope are not a significant entry barrier.

If LECs possess scope economies that smaller firms do not have, new entrants might find it difficult to compete on the merits with incumbent LECs if LEC rates reflect the resulting cost efficiencies. However, the mere existence of scope economies does not constitute either a barrier to entry or an anticompetitive advantage. Rather, scope economies are contributory factors to efficient production processes. To the extent that consumer prices reflect such cost efficiencies, consumers benefit. Competitive markets reward firms for achieving cost efficiencies, regardless

whether such efficiencies arise from economies of scope, adoption of technological innovations, or some other source. It would be counter-intuitive to penalize regulated firms operating in competitive markets for achieving efficient cost structures.

Nevertheless, the benefits of cost efficiencies possessed by a regulated firm with scope economies can be denied to consumers by requiring the firm to maintain prices well above levels dictated by its cost structure just to permit profitable entry by less efficient firms. This, however, simply is not sound public policy in that consumers pay higher prices in order to support higher telecommunications industry costs than would prevail if all suppliers' prices more closely reflected each firm's cost structure.

IX. CONCLUSION

Insofar as Ad Hoc's Petition advocates that full separations reform must precede access system reform, it is unfounded and should be rejected. Access charge reform should include an evaluation and reformation of existing support mechanisms, and should proceed as soon as practical.

There is likewise no reason that LECs should continue to be denied real pricing flexibility. Regulation should not pick winners and losers by providing artificial advantages to some market participants. Access reform that eliminates regulatory

handicapping is essential if consumers, as opposed to only certain advantaged service providers, are to reap the benefits of competition.

Respectfully submitted,

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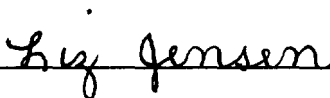
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July 8, 1994

CERTIFICATE OF SERVICE

I, Liz Jensen, hereby certify that the foregoing
Comments of Southwestern Bell Telephone Company in Docket
RM8480, have been served this 8th day of July, 1994 to the
Parties of Record.


Liz Jensen

July 8, 1994